

MiFID 1

Reference document: Directive 2004/39/EC (MiFID)

Link: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0039:EN:HTML>

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Introduction

The "Markets in Financial Instruments Directive" (MiFID) 2004/39/EC was adopted on 21 April 2004 and came into force on 1 November 2007.

- It creates a single European financial services market enabling financial investment services providers (ISPs) approved by the Member States to operate across the EU (under a European passport);
- It repeals the rule of order centralisation on regulated markets, by ending the monopoly of Incumbent Exchanges with the arrival of Multilateral Trading Facilities (MTFs) and allowing the internalisation of orders on the intermediary's own account;
- It lays down organisational requirements and rules of conduct to prevent conflicts of interest and improve investor protection through measures such as the obligation to execute the orders under the most favourable conditions for the client (best execution) and pre- and post-trade transparency rules (however, the pre-trade transparency rules only apply to shares admitted to trading on a regulated market).

Moreover, MiFID reinforced the investment services providers' classification and client information obligations, considering that the clients with the least experience require the highest protection level. Three classes of clients have been defined: eligible counterparties (banks and financial institutions), professionals (companies) and non-professionals (private individuals).

Concerning the transparency obligation, it should be noted that the MiFID implementing regulation defined four types of derogations:

- in the event of execution based on a price borrowed from other platforms (imported price);
- in the event of large orders;
- in the event of negotiated transactions;
- when the orders are placed in an order management system before their transmission to the market

These derogations have given rise to crossing networks and other dark pools which have led market authorities to propose a review of MiFID.

Current situation:

This Directive will be replaced with MiFID 2 (see corresponding factsheet)

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